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DIA and DOS review(s) completed.

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GENERAL

1. Comment on Pravda's rejection of Western terms for conference:

A 22 July Pravda editorial, highly critical of the tripartite Washington Conference decisions, foreshadows a Soviet refusal to attend a four-power meeting on Western terms. It implies that the Soviet Union prefers a loosely organized four-power conference which it could use as a propaganda forum.

The specific Pravda comments on Germany followed the standard propaganda line, reflecting Moscow's consciousness of the weakness of its present position in Germany and suggesting that the USSR is not yet prepared to meet Western demands for free elections. The USSR will probably maintain its position favoring talks on the entire question of a German peace treaty rather than on free elections.

The virtual omission of Austria from the editorial reflects both the Soviet Union's belief that this issue is completely subsidiary to the German question and the limitations on its bargaining position on that issue.

The familiar Soviet effort to foster dissension in the West was visible in the allegation that under US pressure the United Kingdom and France retreated from the type of conference suggested by "the proposal previously made by Churchill and supported by public opinion." Similarly, Pravda charged that Britain and France were compelled to abandon their reservations concerning US policy toward Rhee and had sacrificed their "vital interests," which require normal relations with Communist China.

SOVIET UNION

2. Comment on Soviet prospects of fulfilling current Five-Year Plan:

Analysis of official Soviet plan fulfillment figures for the first two and a half years indicates that unless the rise in labor productivity and investment can be stimulated, the USSR will probably not meet the 1955 goal of its fifth Five-Year Plan. Thus

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the new regime is faced with industrial production problems at a time when other serious political and economic problems demand solution.

The reported gains in the first half of this year of five percent in labor productivity and four percent in capital investment are considerably below those required for fulfillment of the Five-Year Plan. Therefore, the growth of industrial output, though still high, will fall short of the 1955 goal of a 70 percent increase over 1950 unless capital investment is sharply expanded. Such an investment increase would necessarily take place at the expense of planned defense expenditures, since the new Soviet government has already allocated additional resources to consumer goods output.

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6. Chinese Nationalist raid on Tungshan reportedly unsuccessful:

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[REDACTED] The American naval attache at Taipei has received reports from usually reliable sources indicating that Chinese Nationalist casualties in the 16-17 July raid on Tungshan Island, just off the southern Fukien coast, exceeded 50 percent, and that the raiders were forced to evacuate within 28 hours rather than after three days as planned.

Nationalist reconnaissance reportedly gave the Communist defenders of Tungshan ample warning of the airdrop. The paratroopers, caught in artillery crossfire from the moment of landing, were unable to achieve their objectives. Amphibious forces, landed at other points, also failed in their major objectives, with the result that the paratroopers had to fight their way out.

Comment: About 600 paratroopers and 6,000 ground troops were employed in this raid, the largest operation undertaken by the Nationalists since 1949. Preliminary reports had indicated that all planned objectives had been accomplished.

SOUTHEAST ASIA

7. Reynaud's views on Indochina crisis:

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[REDACTED] According to Deputy Premier Reynaud, the French cabinet considers the recent Washington talks a failure, since the United States did not offer the necessary funds for Indochina and France does not have the means to carry on. In conversation with Ambassador Dillon and Adlai Stevenson, he asked whether it would not be easier for the United States to make funds available directly to Vietnam.

There is little or no chance that General Navarre will get the 12 additional battalions he has requested, according to the deputy premier. Reynaud feels that the only key to

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[REDACTED]

success in Indochina is the creation of a strong Vietnamese army with a nationalistic spirit. French troops would then be gradually withdrawn.

NEAR EAST - AFRICA

8. Iranian referendum reportedly to be held within two weeks:

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Prime Minister Mossadeq plans to hold a national referendum by 5 August.

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The referendum will reportedly determine whether the present Majlis will continue to exist and whether the shah will be permitted to retain any political power.



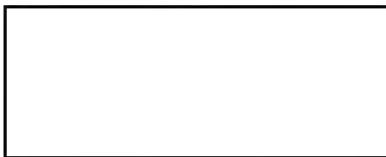
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Mossadeq as "one hundred percent sure" that the referendum will approve dissolution of the Majlis and removal of all political authority from the shah. Within two months after the referendum, the prime minister allegedly plans to organize his own political party and call for new elections.

Comment: This is the first clear statement of the timing and scope of Mossadeq's proposed referendum and his plans for the future. It was rumored on 20 July that he would refer to the people only the question of Majlis dissolution.

9. Turkey plans firm reply to Soviet protest over visits of Western warships:

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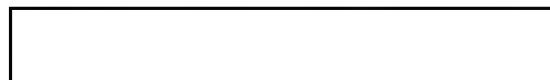


The Turkish government will reply immediately to the 20 July Soviet protest that the forthcoming Istanbul visits of American and British warships are

a demonstration of force, according to the American embassy in Ankara. The Turkish note is expected to be brief, pointing out that they are courtesy visits and in accordance with the provisions of the Montreux convention.

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Comment: The Soviet protest may have been intended to contrast Western "warlike actions," as shown by the movement of naval forces, with the recent ostensibly friendly gestures of the Soviet Union. The protest was transmitted six days after delivery of the short and non-committal Turkish reply to an earlier Soviet note aimed apparently at encouraging bilateral discussion on the Straits.

EASTERN EUROPE

10. Bulgarian premier reportedly to purge Interior Ministry:

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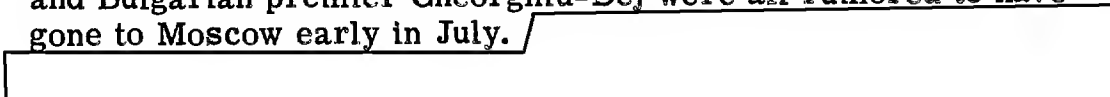


The British minister in Sofia informed his Foreign Office on 15 July that Premier Chervenkov reportedly had returned from Moscow with instructions which included the dismissal of all three assistant ministers of the interior.

Comment: If a purge of the Bulgarian Ministry of Interior is imminent, it would be the first instance of a Moscow-directed purge of a Satellite security organ since Beria's downfall. No firm information is available on the assistant ministers of the interior, their relationships to the leading Bulgarian Communists, or their connection with the Soviet security services.

Chervenkov, Czech president Zapotocky, and Bulgarian premier Gheorghiu-Dej were all rumored to have gone to Moscow early in July. /

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11. Polish premier promises concessions to individual peasants:

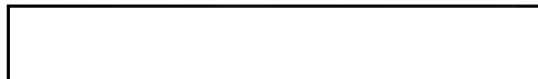
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In a major policy speech on 22 July, Polish National Liberation Day, Premier Bierut stated that the government would provide more assistance, equipment and

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supplies to individual peasant farmers. He stated that legislation is in progress to provide aid to peasants stricken by "natural calamities" or in financial difficulties.

Comment: Such concessions would constitute an abrupt change from the heavy emphasis during the past year on collectivization. They will be the first major step taken by the Polish government in line with the recent adoption of more moderate internal policies in the Orbit.

LATIN AMERICA

12. Costa Rican 26 July election may end in revolt:

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[REDACTED] Should the conservative candidate, Fernando Castro, appear to be winning the 26 July presidential election in Costa Rica, the opposing Figueres forces may resort to violence, [REDACTED]

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President Ulate reportedly now fears that most of the Civil Guard, Costa Rica's only armed force, would support a Figueres revolt.

Comment: In view of the present public apathy toward the election, a light vote, which would favor the well-organized, radical Figueres forces, appears likely.

Ulate has previously been reported confident that there would be no major revolt and that he has taken sufficient special precautions to control the expected minor flare-ups.

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[REDACTED]